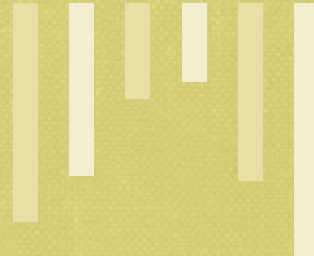
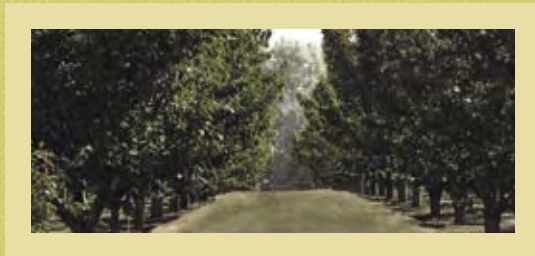


Summary Annual

Financial Report

Washington State Department of
Retirement Systems

2006



MESSAGE FROM THE DIRECTOR



Sandra J. Matheson

Every seven seconds, a person born in the baby boom generation turns 50. By 2014 — less than a decade from now — these people will all be over the age of 50 with the first among them turning 68. And they will have a healthier and longer lifespan than that of any previous generation.

These facts and others have caught the attention of many. Over the last year, people have begun to ask, “Are we ready to retire?” The Department of Retirement Systems takes this question and your well-being seriously. It is the basis for continuous upgrades we will be making in our publications, Web site, one-on-one counseling, and planning seminars.

Our goal is to assist you in using your retirement benefits to create a life-long income stream. How are we approaching this? By partnering with our members and others to help plan changes in our services. Equally important, we will continue to maintain our cost-effectiveness and the personalized service you appreciate.

Here are a few of the year's highlights:

- *Cost-effectiveness.* Our administrative cost per member again came in below that of peer pension systems with similar complexity.
- *Outstanding service.* Incoming phone calls reached a trained, knowledgeable staff member within 35 seconds, walk-in customers met with staff in less than four minutes and requests for written pension estimates were fulfilled in an average of less than four days.
- *Innovation.* We designed and launched a staff recruitment process that gives prospective employees an up-close look at the job requirements so that we know each member of our agency cares about you and can give you first-rate service.
- *Outreach.* We made presentations to public employee groups and civic organizations that increased awareness of the need to plan and prepare for a post-career life.

In 2006, we celebrated 30 years as an agency by continuing to deliver exceptional service to our members and value to the taxpayers of Washington. It was a time of looking back, but more importantly, ahead.

We look forward to providing you with outstanding and continuously improving services in 2007.

Sincerely,

A handwritten signature in black ink that reads "Sandra Matheson". The script is fluid and cursive.

Sandra J. Matheson, Director

MEMBERSHIP

The State of Washington provides secure, quality retirement plans for public employees. The 14 plans managed by the state’s Department of Retirement Systems serve more than 443,000 current, past and retired employees from state and local government, pre-secondary through higher education systems, fire, law enforcement and judicial agencies. (PSERS, the 15th plan, was added July 1, 2006.)

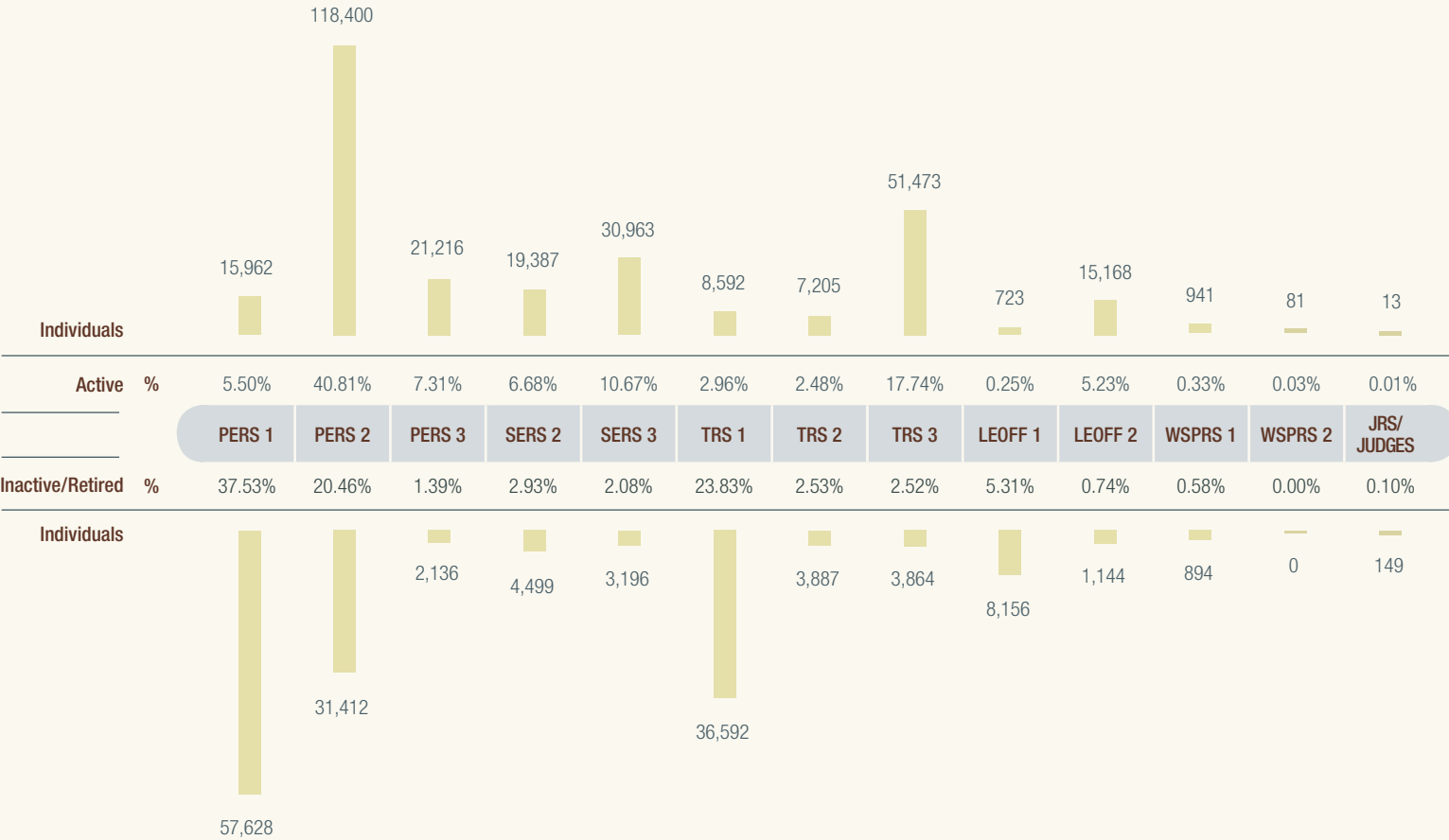
Active members, who are currently employed and paying contributions toward retirement, comprise 65 percent of the public pension participation. Remaining members are either retired or have separated from public service.

The chart below illustrates the number of active and inactive/retired employees participating in the state’s retirement systems.

A healthy lifestyle is an important part of creating a secure retirement.



MEMBERSHIP BY SYSTEM AND PLAN
(as of September 30, 2005)



INVESTMENT SUMMARY

The Washington State Investment Board manages retirement fund assets with the statutory requirement to maximize investment returns at a prudent level of risk. The retirement Commingled Trust Fund (CTF) increased by \$6.4 billion during Fiscal Year 2006 to \$53.8 billion. The CTF return was 16.69 percent for the fiscal year.

The table below shows the returns for the CTF on a total fund basis and by asset class.

CTF INVESTMENT RETURNS (Performance as of June 30, 2006)

Asset Class	U.S. Equity	Non-U.S. Equity	Private Equity	Fixed Income	Real Estate	Liquidity	Total Fund
1 Year (%)	+ 9.90	+ 27.21	+ 39.48	+ 0.32	+ 24.30	+ 4.16	+ 16.69
3 Year (%)	+ 13.05	+ 24.92	+ 30.04	+ 2.92	+ 19.83	+ 2.19	+ 15.47
5 Year (%)	+ 3.98	+ 11.49	+ 13.24	+ 5.69	+ 17.22	+ 2.01	+ 8.51

Investment performance is a result of two primary factors: individual asset selection and the allocation of the portfolio among asset classes (e.g. stocks, fixed income, real estate).

Accordingly, the board sets a specific target asset mix and adopts tight ranges around those targets to control the overall risk and return of the CTF. On a daily basis, the board staff reviews the asset allocation in relation to the established ranges. The staff shifts assets whenever the allocation range for an asset exceeds the approved range or when cash is needed elsewhere. The board reviews changes to the overall asset mix every three to four years.

CURRENT ASSET ALLOCATIONS & TARGET ALLOCATIONS (as of June 30, 2006)

	U.S. Equity	Non-U.S. Equity	Private Equity	Fixed Income	Real Estate	Liquidity
Actual	24.26%	23.49%	16.79%	24.06%	10.50%	0.90%
Target	24.50%	23.00%	15.50%	27.50%	9.50%	0.00%

The table on the right shows the ten largest holdings in the CTF’s U.S. equity market index fund. The board invests in domestic stocks as part of an equity index portfolio and not as individual stock purchases.

LARGEST U.S. EQUITY HOLDINGS (as of June 30, 2006)

Holding	% of U.S. Equity Index Fund
Exxon Mobil Corp.	2.60%
General Electric Corp.	2.27%
Citigroup Inc.	1.69%
Bank America Corp.	1.52%
Microsoft Corp.	1.47%
Pfizer Inc.	1.23%
Johnson & Johnson	1.23%
Procter and Gamble Co.	1.23%
J.P. Morgan Chase & Co.	1.02%
Altria Group, Inc.	0.97%



Thoughtful planning helps you create the retirement you want.

FINANCIAL STATEMENT

STATEMENT OF PLAN NET ASSETS: Pension & other employee benefit trust funds by plan & agency fund (as of June 30, 2006, expressed in thousands)

Pension Trust								
ASSETS	PERS Plan 1	PERS Plan 2/3	PERS Plan 3 Defined Contribution	SERS Plan 2/3	SERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3	TRS Plan 3 Defined Contribution
Cash and Pooled Investments	\$3,834	\$9,358	\$222	\$1,673	\$761	\$3,737	\$5,476	\$3,104
Total Receivables	\$78,922	\$118,304	\$13,895	\$19,113	\$14,364	\$66,473	\$46,602	\$44,674
Total Investments, Noncurrent	\$11,296,504	\$15,655,640	\$1,155,564	\$2,237,624	\$913,564	\$9,563,672	\$5,540,498	\$3,340,999
Other Assets	\$396	\$411	—	\$30	—	\$340	\$182	—
TOTAL ASSETS	\$11,379,656	\$15,783,713	\$1,169,681	\$2,258,440	\$928,689	\$9,634,222	\$5,592,758	\$3,388,777
TOTAL LIABILITIES	\$1,124,203	\$1,555,625	\$67,794	\$226,702	\$68,948	\$951,879	\$562,725	\$199,830
Net Assets Held in Trust for Pension and Other Benefits	\$10,255,453	\$14,228,088	\$1,101,887	\$2,031,738	\$859,741	\$8,682,343	\$5,030,033	\$3,188,947

This is a summary of the Comprehensive Annual Financial Report (CAFR), which is presented consistent with generally accepted accounting principles (GAAP) and can be obtained by calling us toll-free at 1-800-547-XXXX. The agency fund does not have a measurement focus and is presented using the accrual basis of accounting. However, this presentation differs from GAAP in the following respects: financial data for the dependent...

ADDITIONS TO PENSION PLAN NET ASSETS

The primary sources of additions to the retirement trust funds include member and employer contributions and investment earnings. The main sources of additions to the deferred compensation plan include participant contributions and investment earnings. Total additions or revenues to the retirement trust funds and the deferred compensation plan (excluding transfers) for Fiscal Year 2006 amounted to \$9,397.6 million. This is an increase of \$2,635.1 million from Fiscal Year 2005 and is primarily due to an increase in net investment income.

Additional sources and their totals are listed below (expressed in millions).

Additions	Fiscal year 2006	Fiscal year 2005
Retirement Contributions	\$1030.0	\$732.5
Deferred Compensation Participant Contributions	\$168.0	\$160.0
Net Investment Income	\$8,157.3	\$5,840.3
Charges for Services	\$27.2	\$25.7
Other Additions	\$2.0	\$2.6
TOTAL	\$9,403.1	\$6,768.0



Agency								Totals	
LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	JRS	JUDGES	JRA Defined Contribution	Deferred Compensation	Dependent Care	June 30, 2006	June 30, 2005
\$2,106	\$1,356	\$529	\$29	\$4,085	\$7	\$2,820	\$593	\$39,690	\$47,192
\$40,060	\$37,939	\$6,130	\$12	\$17	—	\$1,865	—	\$488,370	\$265,328
\$6,129,492	\$4,537,411	\$900,676	\$10	\$226	\$17,120	\$2,184,988	—	\$63,473,988	\$55,347,915
\$197	\$91	\$25	—	—	—	—	—	\$1,672	\$1,929
\$6,171,855	\$4,576,797	\$907,360	\$51	\$4,328	\$17,127	\$2,189,673	\$593	\$64,003,720	\$55,662,364
\$606,659	\$447,723	\$89,195	\$48	\$230	—	\$233	\$593	\$5,902,387	\$4,479,381
\$5,565,196	\$4,129,074	\$818,165	\$3	\$4,098	\$17,127	\$2,189,440	—	\$58,101,333	\$51,182,983

7-6657. As with the CAFR, the pension trust funds in this summary are presented using the flow of economic resources measurement focus and the accrual basis of accounting. care special revenue fund is not included, only selected financial data rather than financial statements are included, and this report only contains abbreviated note disclosures.

DEDUCTIONS TO PENSION PLAN NET ASSETS

The retirement systems’ primary trust fund deductions include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members and the cost of administering the retirement systems. Total deductions to the retirement trust funds and the deferred compensation plan (excluding transfers) for Fiscal Year 2006 totaled \$2,479.3 million. This is an increase of \$160.8 million from Fiscal Year 2005.

Benefit payments to members, including pension and annuity benefits, totaled \$2,193.4 million for Fiscal Year 2006. Refunds totaled \$257.9 million. Administrative expenses, which include pension expenses incurred by DRS and the offices of the State Actuary and Attorney General, totaled \$26 million. Expenses for the management of trust funds are incurred by the Washington State Investment Board and funded from earnings on investments.

PENSION PLAN DEDUCTIONS

Benefits	88%
Refunds of Contributions	11%
Administrative Expenses	1%

FUNDING

Valuations are performed for all DRS-administered retirement systems on a yearly basis (October 1 to September 30).

The actuarial value of assets available as of the latest actuarial date, September 30, 2005, for all systems was \$45,418 million. The accrued liability was \$51,391 million. The accrued liability exceeds the net actuarial value of assets available for benefits by \$5,973 million.

The ratio of assets to liabilities is 88 percent, compared to 91 percent last year. Current contribution rates remain in keeping with the goal of attaining a funding ratio of 100 percent by the amortization dates applicable to each plan, as required by the Revised Code of Washington, chapter 41.45.

Your success
is our success.

The Comprehensive and Summary Annual Financial Reports use accounting methods set by the Governmental Accounting Standards Board to report accrued liabilities and annual required contributions. The Valuation (or Funding) Report issued by the State Actuary uses actuarial assumptions and methods prescribed by the Legislature to calculate required contributions under existing funding policy. For this reason, the numbers shown in this report may vary from those shown in the State Actuary's Valuation Report.

SUMMARY OF PLAN PROVISIONS

A brief summary of retirement plans administered by DRS is provided below. For more details, refer to the plan's member handbook or visit the DRS Web site at www.drs.wa.gov.

PLAN	MEMBERSHIP ELIGIBILITY	VESTING	RETIREMENT ELIGIBILITY	BENEFIT
PERS Plan 1 (By 9/30/77)	State employees, elected officials, employees of local governments, legislative committees, community/technical colleges, classified employees of school districts, district/municipal court judges, and some employees of the Supreme, Appeals, and Superior Courts	After five years of eligible service	After 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service	2% of average final compensation (AFC) per year of service
PERS Plan 2 (On or after 10/1/77)	Same as PERS Plan 1, except classified school district employees; new employees hired on or after 3/1/02 at state agencies and higher education, or on or after 9/1/02 at all other employers, must choose Plan 2 or Plan 3	After five years of eligible service	At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service	2% of AFC per year of service
PERS Plan 3 (On or after 3/1/02)	Same as PERS Plan 2; new employees hired on or after 3/1/02 at state agencies and higher education, or on or after 9/1/02 at all other employers, must choose Plan 2 or Plan 3	Varies	At age 65 if vested or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion)	1% of AFC per year of service (defined benefit portion)*
SERS Plan 2 (On or after 9/1/00)	All classified employees of school or educational service districts	After five years of eligible service	At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service	2% of AFC per year of service
SERS Plan 3 (On or after 9/1/00)	All classified employees of school or educational service districts	Varies	At age 65 if vested or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion)	1% of AFC per year of service (defined benefit portion)*
TRS Plan 1 (By 9/30/77)	All certificated public school employees who work in an instructional, administrative or supervisory capacity	After five years of eligible service	Any age with 30 years of service, or at age 60 with five years of service or at age 55 with 25 years of service	2% of AFC per year of service
TRS Plan 2 (On or after 10/1/77 and by 6/30/96)	All certificated public school employees who work in an instructional, administrative or supervisory capacity	After five years of eligible service	At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service	2% of AFC per year of service
TRS Plan 3 (On or after 7/1/96)	All certificated public school employees who work in an instructional, administrative or supervisory capacity	Varies	At age 65 if vested or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion)	1% of AFC per year of service (defined benefit portion)*
LEOFF Plan 1 (By 9/30/77)	All full-time, fully compensated law enforcement officers and fire fighters	After five years of eligible service	At age 50 with five years of service	20 years of service = 2% of final average salary (FAS) per year of service 10-19 years of service = 1.5% of FAS 5-9 years of service = 1% of FAS
LEOFF Plan 2 (On or after 10/1/77)	All full-time, fully compensated law enforcement officers and fire fighters	After five years of eligible service	At age 53 with five years of service or a benefit at age 50 with 20 years of service reduced 3% for each year under age 53	2% of FAS per year of service
WSPRS Plan 1 (On or after 8/1/47 and by 12/31/02)	Commissioned employees of the Washington State Patrol	After five years of eligible service	At age 55 or after 25 years of service	2% of average final salary (AFS) per year of service
WSPRS Plan 2 (On or after 1/1/03)	Commissioned employees of the Washington State Patrol	After five years of eligible service	At age 55 or after 25 years of service	2% of AFS per year of service
JRS (On or after 8/9/71 and by 6/30/88 - New judges on or after 7/1/88 join PERS Plan 2 or 3)	Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts	After 15 years of service	At age 60	15 years of service = 3.5% of AFC per year of service 10-14 years of service = 3% of AFC
Judges (By 8/8/71)	Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts	After 12 years of service	At age 70 with 10 years of service or any age with 18 years of service	1/2 of monthly salary

*PERS, SERS and TRS Plan 3 are defined benefit plans with a defined contribution component. Employers contribute to the defined benefit portion of the plan. Employees determine their own contributions.

DRS publishes handbooks describing the rights and benefits for each system and plan, including disability and survivor benefits. These handbooks are provided to members by their employers. They are also available from DRS and on the Web site at www.drs.wa.gov. For more information, contact DRS at 1-800-547-6657. To receive this publication in an alternate format, call (360) 664-7097.

PENSION SYSTEM ROLES AND RESPONSIBILITIES

ORGANIZATION	RESPONSIBILITY	MEMBERSHIP AND CONTACT INFORMATION
Department of Retirement Systems (DRS)	Collects and accounts for employer and employee contributions; maintains retirement records; pays benefits; communicates pension information; provides investment education; and administers the Deferred Compensation and Dependent Care Assistance Programs.	The Governor appoints the director of DRS. P.O. Box 48380, Olympia, WA 98504-8380 Tel: (360) 664-7000, in Olympia, or toll-free at 1-800-547-6657 • www.drs.wa.gov
Legislative Fiscal Committees	Review and report on retirement bills to the full Legislature.	The legislative fiscal committees are the House Appropriations Committee and the Senate Ways and Means Committee. House Appropriations Committee P.O. Box 40600, Olympia, WA 98504-0600 Tel: (360) 786-7573 or toll-free 1-800-562-6000 (Legislative Hotline) • www1.leg.wa.gov/legislature Senate Ways and Means Committee P.O. Box 40482, Olympia, WA 98504-0482 Tel: (360) 786-7715 or toll-free 1-800-562-6000 (Legislative Hotline) • www1.leg.wa.gov/legislature
Select Committee on Pension Policy (SCPP)	Studies pension issues and retirement finances. Develops pension policies and recommends pension legislation.	Composed of four active retirement system member representatives, two retiree representatives, four employer representatives, eight state legislators and the directors of the Department of Retirement Systems and the Office of Financial Management. Contact through the State Actuary's office: P.O. Box 40914, Olympia, WA 98504-0914 Tel: (360) 786-6140 • www1.leg.wa.gov/scpp
Pension Funding Council (PFC)	Adopts economic assumptions for pension funding and employer pension contribution rates for PERS, SERS, TRS, LEOFF Plan 1 and WSPRS.	Membership consists of the directors of DRS and Office of Financial Management, and the Chairs and Ranking Minority Members of the Senate Ways and Means Committee and House Appropriations Committee. Contact through DRS.
Office of Financial Management (OFM)	Advises the Governor on pension and funding policies and issues.	The Governor appoints the director of OFM. P. O. Box 43113, Olympia, WA 98504-3113 Tel: (360) 902-0555 • www.ofm.wa.gov
Washington State Investment Board (WSIB)	Invests and accounts for pension funds.	Membership consists of the director of DRS; the state treasurer; the director of the Department of Labor and Industries; a state senator; a state representative; an active member of PERS, SERS, LEOFF and TRS; and a retired member of one of the seven retirement systems. P.O. Box 40916, Olympia, WA 98504-0916 Tel: (360) 956-4600 • www.sib.wa.gov
Office of the State Actuary (OSA)	Acts as an advisory agency to the Legislature and DRS. Performs actuarial studies and reports on retirement bills. Creates formulas used to compute benefit payment adjustments that are based on early retirement, cost-of-living or long-term survivor factors.	Appointed by the SCPP. P.O. Box 40914, Olympia, WA 98504-0914 Tel: (360) 786-6140 • osa.leg.wa.gov
Employee Retirement Benefits Board (ERBB)	Provides recommendations to the WSIB on self-directed investment options for defined contribution plans; determines the payment options available for Plan 3 members; ratifies administrative charges assessed to members who participate in self-directed investment options; and provides recommendations on investment options for the Deferred Compensation Program.	Nine active and retired representatives of TRS, PERS and SERS, a Deferred Compensation Program participant and two investment professionals appointed by the Governor. The DRS director chairs the board.
DRS Advisory Committee	Serves in an advisory role to the director of DRS on retirement administrative issues.	Members represent active and retired members of the retirement systems administered by DRS.
LEOFF Plan 2 Retirement Board	Policy-making board that studies pension issues, acts as fiduciary of LEOFF Plan 2, sets contribution rates and recommends pension policy to the Legislature for LEOFF Plan 2 members.	Membership consists of representatives from the Legislature, law enforcement, fire fighters and employers. P.O. Box 40918, Olympia, WA 98504-0918 Tel: (360) 586-2320 • www.leoff.wa.gov



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